

Message Text

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ACTION SS-30

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O R 061500Z AUG 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 8173

INFO AMCONSUL DHAHRAN

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

C O N F I D E N T I A L JIDDA 4570

EXDIS

E.O. 11652: GSD, XGDS

TAGS: ENRG, SA

SUBJECT: OIL AUCTION POSTPONED, POSSIBLY INDEFINITELY

REF JIDDA 4431

SUMMARY: COUNCIL OF MINISTERS MEETING ON AUGUST 4
HAS REPORTEDLY DECIDED TO POSTPONE OIL AUCTION--PERHAPS
INDEFINITELY. MINPET YAMANI, HOWEVER, SAID PRODUCTION WOULD
INCREASE AND THAT SAG STILL CONVINCED IT MUST TRY TO BRING
PRICES DOWN. END SUMMARY

1. TWO SOURCES HAVE NOW CONFIRMED THAT EARLIER
MIDDLE EAST ECONOMIC SURVEY REPORTS THAT OIL AUCTION
AT 1.5 MBD WOULD BE HELD IN LATE AUGUST ARE INCORRECT.
IT APPEARS THAT COUNCIL OF MINISTERS UNDER PRINCE FAHD
DECIDED AUGUST 4 TO POSTPONE -- POSSIBLY INDEFINITELY --
ANY SAUDI OIL AUCTION.

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2. FIRST REPORT CAME AUGUST 6 FROM A RELIABLE PRIVATE

SOURCE WHO SAID YAMANI HAD TOLD HIM ON AUGUST 5 IN TAIF THAT THE OIL AUCTION HAD BEEN POSTPONED. YAMANI HAD REFUSED TO SAY WHY AUCTION WAS POSTPONED AND SUGGESTED THAT SOURCE DRAW HIS OWN CONCLUSIONS. YAMANI DID SAY THAT SAUDI ARABIA HAD BEEN IN CONSTANT CABLE CONTACT WITH OTHER OIL PRODUCERS WHO WERE PRESSING SAG NOT TO HOLD AN AUCTION AT THIS TIME. HE GAVE NO INDICATION THAT DECISION OF COUNCIL OF MINISTERS MIGHT BE REVERSED WHEN KING RETURNS ON AUGUST 7. HE DID INDICATE PRIVATELY AND CONFIDENTIALLY THAT HE HIMSELF MIGHT BE IN SOME DIFFICULTY WITH THE SAUDI POWER STRUCTURE BUT WAS MYSTERIOUS ABOUT ITS ORIGINS AND WHAT MIGHT HAPPEN.

3. SAME SOURCE ADDED THAT YAMANI SAID PRODUCTION WOULD INCREASE AND THAT IT CONTINUED TO BE SAG'S FIRM BELIEF THAT OIL PRICES HAD TO BE BROUGHT DOWN TO HELP RESCUE THE WORLD ECONOMY. REGARDING ARAMCO, HE WOULD ONLY COMMENT THAT RELATIONSHIPS BETWEEN ALL THE OIL COMPANIES AND OIL PRODUCING COUNTRIES WOULD UNDERGO A SIGNIFICANT CHANGE SOON.

4. GOVERNOR ABDUL HADY TAHER ALSO CONFIRMED TO ECON COUNSELOR AUGUST 6 THAT AUCTION HAD BEEN POSTPONED. HE REFUSED TO SPECULATE ON REASONS BUT SAID THAT IT WAS POLITICAL IN NATURE. (HE WENT ON TO SAY THAT ANY AUCTION DECISION HAD TO BE TAKEN BY THE NINTH DAY OF THE MONTH IF SHIPMENTS WERE TO BE SCHEDULED FOR THE FOLLOWING MONTH.) HE SAID THAT 8.5 MBD CEILING ON PRODUCTION REMAINED IN FORCE, AND ASKED "WHY INCREASE PRODUCTION WHEN THERE WAS ALREADY A SURPLUS ACCORDING TO AMERICAN SOURCES?"

5. ON PRICING, TAHER COULD SEE NO REASON FOR REDUCTION IF THE MARKET WAS ABLE TO ABSORB ALL THE OIL NOW BEING PRODUCED AND POINTED TO THE NUMEROUS SPECIAL AID AND LOAN AVENUES AVAILABLE TO THOSE COUNTRIES WITH BALANCE OF PAYMENTS DIFFICULTIES. HE SAID THAT ANY AGREEMENT TO LOWER PRICES WOULD NOT BE DICTATED BY THE MARKET PLACE BUT BY POLITICAL NEEDS.
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6. I AM HOPING TO SEE YAMANI AND GO OVER THIS GROUND WITH HIM AFTER KING FAISAL'S RETURN. KING EXPECTED BACK EITHER AUGUST 6 OR 7. I IMAGINE I MIGHT SEE YAMANI EITHER ON THURSDAY, AUGUST 8, OR AFTER FRIDAY, AUGUST 9. ON ASSUMPTION AUCTION IS INDEED POSTPONED, I WOULD WELCOME ANY ADDITIONAL ARGUMENTS DEPT BELIEVES WOULD BE HELPFUL TO HIM OR TO OUR POLICY OF SEEKING

HIGHER SAUDI OIL PRODUCTION AND A TESTING OF THE REAL MARKET
FOR OIL.
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